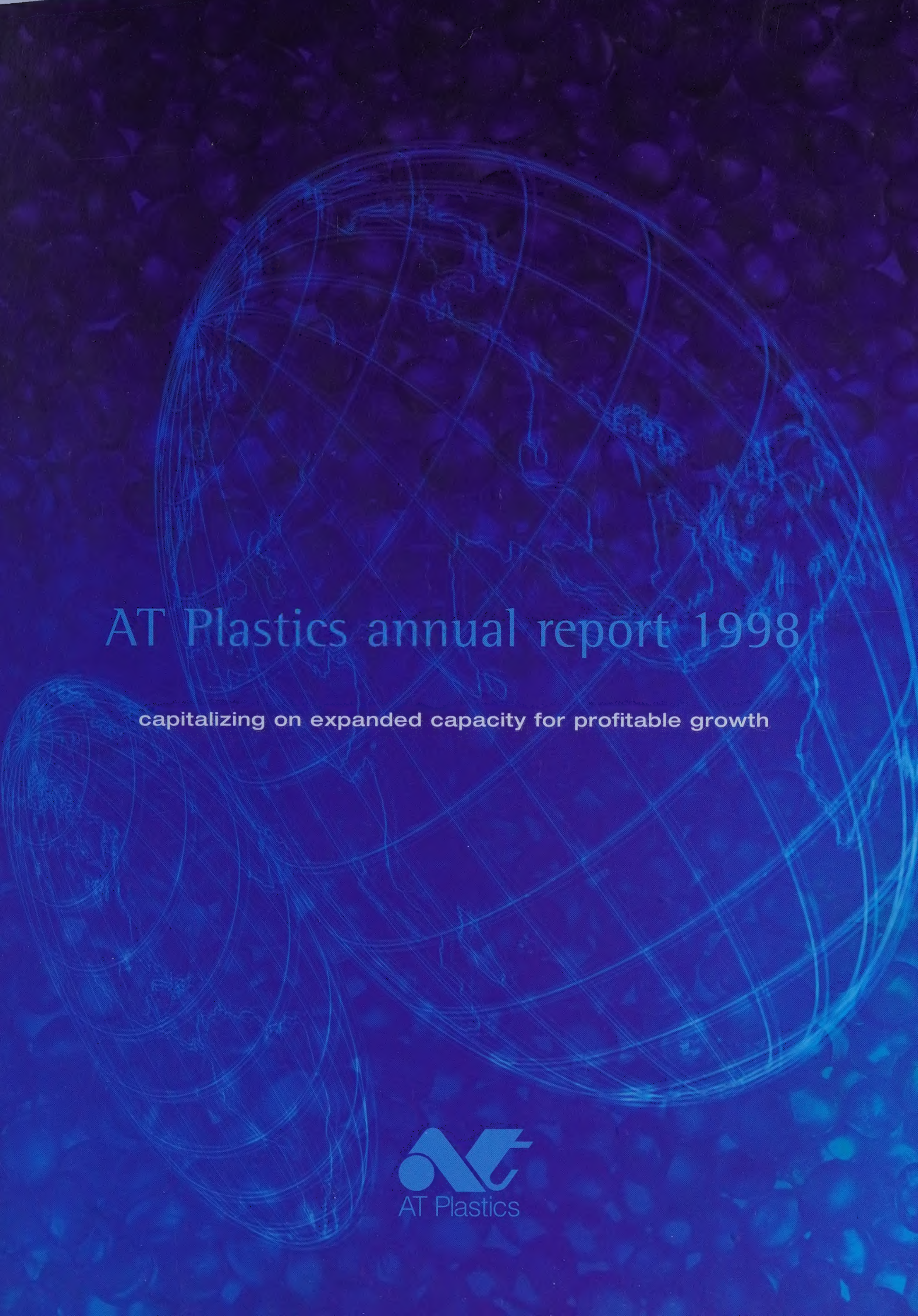

AT Plastics annual report 1998

capitalizing on expanded capacity for profitable growth

AT Plastics

CORPORATE PROFILE

AT Plastics Inc. develops and manufactures specialty plastics raw materials and fabricated products for international niche markets. These markets are less susceptible to cyclical price fluctuations, and provide consistently higher margins than commodity markets. The expansion initiatives undertaken in 1996 through 1998 position AT Plastics for international growth in each of its businesses - Polymers, Films & Packaging.

AT Plastics' shares trade on the Toronto Stock Exchange ("ATP") and the American Stock Exchange ("ATJ").

MISSION STATEMENT

AT Plastics' mission is to be a profitable, growing, environmentally responsible, international manufacturer of high-quality specialty plastics, deploying advanced technologies and innovative solutions to meet the needs of its valued customers.

CORE COMPETENCIES

Technological Focus
Ability to be a fast, focused and innovative integrator of advanced technologies and skills in all business processes, to provide quality, value-added specialty products.

Committed Employees
Ability to develop and maintain a flexible and highly motivated workforce, known for its innovation, service to customers and dedication to continuous improvement.

Customer Responsiveness
Ability to be a perceptive and responsive organization to customers' evolving needs and requirements.

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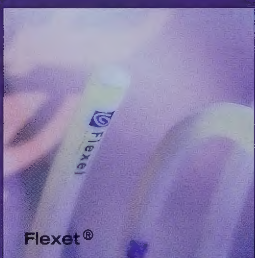
With the completion of our $231 million capital expansion program that has nearly doubled sales capacity to $400 million, we are now focused on reaping the benefits of this investment and building shareholder value. To maximize returns on our expanded operations, we have a four-part strategy. We are committed to:

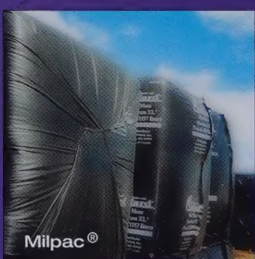
- Achieving capacity operation
- Gradually improving our product mix and profit margins to pre-expansion levels
- Aggressively controlling costs
- Minimizing capital expenditures

We will capitalize on growth opportunities with existing customers and enter new, international markets where demand for our products continues to grow.

AT Plastics at a glance


Agripac®


Flexet®


Milpac®


Aqua-Link®


PowerGuard®

EXPANSION PROGRAM

FACILITY	PRODUCTS PRODUCED
Films Edmonton, AB Completed: Spring 1997	Agripac® and Lastic-Tube® silage bags; Super Dura-Film®, a multi-layer greenhouse film; other agricultural and horticultural films
Specialty Compounds Carpentersville, IL Completed: Fall 1997	Flexet® plumbing and radiant heat specialty compounds
Packaging Brampton, ON Completed: Spring 1998	Milpac® heavy duty industrial packaging and multi-layer performance films
Copolymers Edmonton, AB Construction Completed: Late 1998	Ateva® ethylene vinyl acetate copolymers used in adhesives, thermal laminations, automotive and wire and cable applications, as well as a wide range of other uses
Specialty Compounds Peachtree City, GA Construction Completed: Early 1999	PowerGuard® advanced insulation compounds for medium voltage underground power cables

PRODUCTS

POLYMERS **manufactures specialty copolymers and compounds**

- Ateva® ethylene vinyl acetate copolymers are supplied to markets such as thermal laminations, adhesives and automotive, where they are tailored to meet the specific needs of customers
- Flexet® compounds developed by AT Plastics replace copper pipe and other materials in plumbing and radiant heat applications
- PowerGuard® advanced insulation compounds developed by AT Plastics to satisfy the growing demand by power utilities for underground medium voltage cable – provide longer life as indicated by extensive accelerated testing
- Aqua-Link® ethylene vinyl silane copolymers are used in the insulation of low voltage electrical wire – provide customers with lower manufacturing costs through productivity gains compared to alternative technologies

MARKETS	EXPANSION UPDATE
North America, South America, Australasia and Europe	Increased sales capacity by 30%
North America and Australasia	New facility
North America and Europe	Increased sales capacity by 30%
North America, Australasia, Europe and South America	Increased sales capacity by 70%
North America and South America	New facility

FILMS manufactures specialty agricultural and horticultural films

- Agripac® and Lastic-Tube® silage bags developed by AT Plastics, used by farmers to increase herd yields
- Super Dura-Film® 3-layer new generation film developed by AT Plastics for greenhouse cladding – improved durability and strength compared to other horticultural films

PACKAGING manufactures specialty industrial and consumer packaging

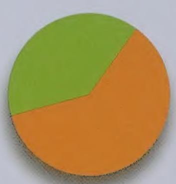
- Milpac® heavy duty shipping sacks and industrial films used for packaging roofing shingles, fertilizers, peatmoss, chemicals, polymers, insulation and explosives
- Performance Multi-Layer Films offering barrier properties which help retain food flavour – replaces more costly and complex paper/plastic products

AT Plastics is in the final completion stages of a five-part expansion program that involved capacity increases at three Canadian plants and the addition of two new production facilities in the United States. The Company will begin to realize benefits from the expansion program in 1999 as it gradually improves its product mix and profit margins to pre-expansion levels.

PHOTO AT RIGHT: *AT Plastics is one of North America's leading manufacturers of shrink packaging for roofing products.*

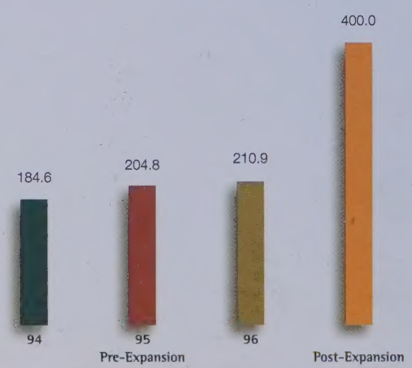
e x p a n d e d

Sales by Business
(percentage)



Polymers	61%
Films & Packaging	39%

Expansion Program Doubles Capacity*
($ millions)



* *Based on 1998 product mix and average selling prices*

c a p a c i t y

e x p a n d e d

FILMS

30% expansion focused on agricultural markets

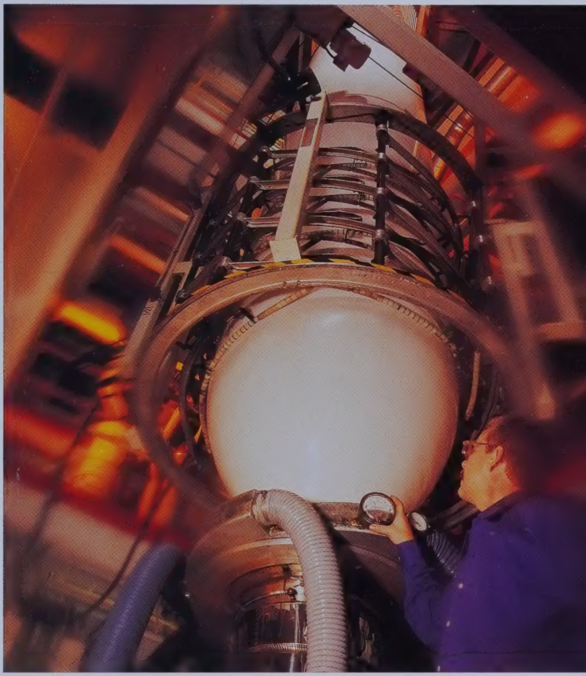
Our expanded films plant in Edmonton produces most of our agricultural and horticultural film, including our Agripac® and Lastic-Tube® silage bags, as well as Super DuraFilm® greenhouse films. The expansion of this facility added an additional 30% to its sales capacity. The expanded plant began contributing to the sales growth experienced by our Films & Packaging business in 1998.

Super DuraFilm® greenhouse films produced at Edmonton are used by growers around the world. >

< The Company's new world class copolymer plant incorporates extensive proprietary technology.

POLYMERS
70% expansion targets four growth markets

Our expanded copolymers facility in Edmonton was designed to produce a wide range of materials and has increased our copolymers production capacity by 70%. This new capacity targets the automotive, adhesives, laminate and wire and cable markets. New facilities added through our expansion program include our specialty compounds facility near Chicago, which produces our proprietary Flexet® compounds; as well as our specialty compounds facility in Peachtree City, Georgia, which will produce our patented PowerGuard® insulation compounds. Together, these three facilities have added $150 million in additional sales capacity, and should contribute to both revenue and operating profit in 1999.



∧ Milpac® packaging produced in the expanded Brampton plant is engineered to meet customers' specific requirements.

PACKAGING
30% expansion focused on industrial packaging

Our expanded packaging plant in Brampton began producing Milpac® industrial packaging in Spring 1998 and is currently operating at close to capacity. The expansion of this facility added an additional 30% to its sales capacity. The newly expanded plant was a key contributor to the higher sales growth posted by our Films & Packaging business this past year.

c a p a c i t y

Following a number of years of essentially fixed capacity, the expansion of our production facilities will allow us to address growing international demand for our products. We have established marketing plans to increase sales through new and existing customers in North America, South America and the Pacific Rim, and by entering promising new markets, notably Europe.

PHOTO AT RIGHT: *The Company's broad range of specialty copolymers and compounds is shipped from the Company's new distribution facility in Edmonton to international markets.*

g r o w t h

Consolidated Sales by Region*
(percentage)

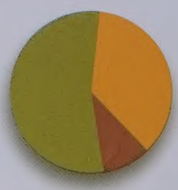
Canada	28.3%
United States	61.8%
Remainder	9.9%

* *Based on 1998 data*

Polymers Sales by Region
(percentage)

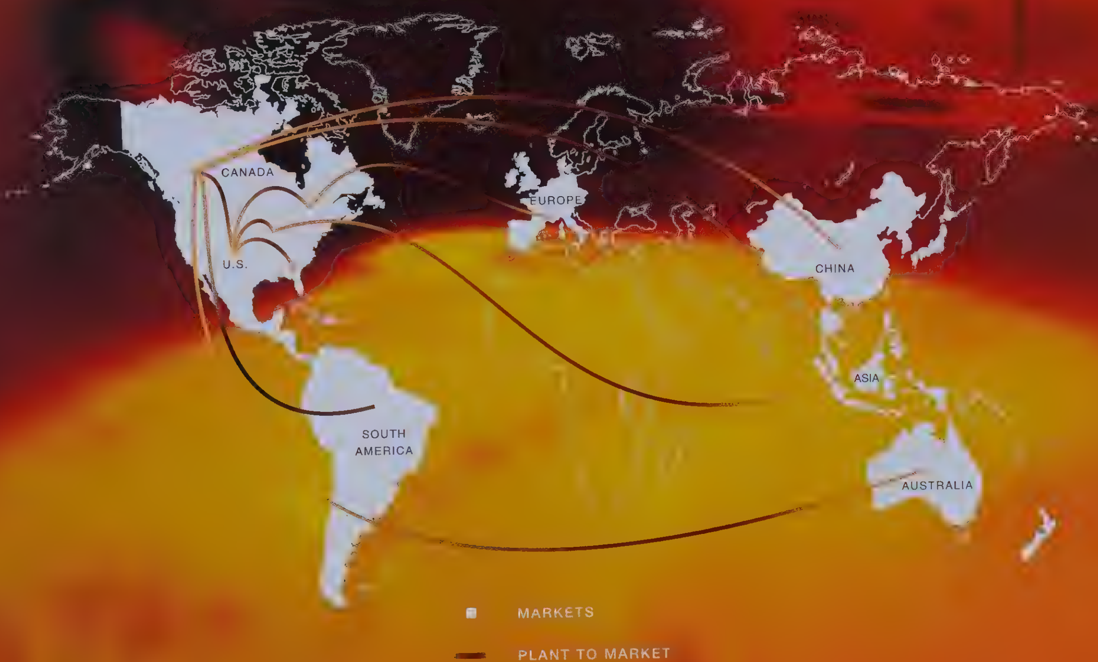
Canada	24.9%
United States	65.4%
Remainder	9.7%

Films & Packaging Sales by Region
(percentage)



Canada	36.3%
United States	54.2%
Remainder	9.5%

o p p o r t u n i t i e s



g r o w t h

PACKAGING
Targeting industrial and consumer markets

AT Plastics has established a strong market position in the industrial and chemical industries with its Milpac® line of shrink packaging for the roofing industry, and with specialty packaging products for chemical products. We continue to pursue market opportunities to expand our consumer packaging business and recently entered into a long-term contract with a major cereal manufacturer.

Servicing the Company's specialty niche markets requires planning and teamwork. V

Copolymers from the new Edmonton facility being loaded into hopper cars for shipment to North American customers. >

POLYMERS
Growing internationally with existing and new customers

AT Plastics is a major Canadian specialty ethylene copolymer producer and the only Canadian manufacturer of ethylene vinyl acetate (EVA) and ethylene vinyl silane (EVS) copolymers. Our leadership position in specialty niche markets should allow us to capitalize on strong, international demand for our copolymers and specialty compounds. We will address these opportunities through a combination of global supply arrangements and through new business opportunities. Additional growth will come from our existing customer base in North America, as well as by re-entering markets we had temporarily lost due to our capacity constraints in recent years.

o p p o r t u n i t i e s

FILMS

Product development and market diversity mean growing, less seasonal revenue

AT Plastics is an international supplier of agricultural and horticultural films. Our new generation of higher-strength, multi-layer greenhouse films called Super Dura-Film®, has become a new standard for performance. Sales of Agripac® silage films continue to accelerate in South America, particularly in Argentina. These markets are counter seasonal to North American markets, providing a more balanced revenue stream and better use of our production capacity throughout the year.

< **Edmonton Power installing underground power cable insulated with PowerGuard® specialty compounds.**

financial objectives vs. 1998 performance

objective: Increase consolidated sales by an average of more than 10% per year over the long term.

performance: In the final stages of completing a five-part expansion program which involves two new manufacturing facilities in the U.S., and expansion of three other production facilities, nearly doubling sales capacity to about $400 million.

objective: Achieve a greater than 15% after-tax return on equity on a rolling five-year basis.

performance: Achieved an average 12.5% per year return on average equity over the period 1995 – 1998. Return on equity has been impacted in the short-term by expansion-related costs.

objective: Reduce total debt to 40% of total capitalization.

performance: Target relaxed temporarily to reduce equity dilution until expansion comes on stream.

operating objectives

Realize expected benefits of the expansion program in both the Polymers and Films & Packaging businesses by:

- Achieving capacity operation
- Gradually improving our product mix and profit margins to pre-expansion levels
- Aggressively controlling costs
- Minimizing capital expenditures

message to shareholders

J.G. (Geoff) Clarke, Chairman & Chief Executive Officer ^

Fiscal 1998 was a year of considerable progress at AT Plastics, during which we entered the final stages of completion of the five-part, $231 million capital expansion program we started in late 1995. Through this program, we expanded our existing facilities in Canada and added new facilities in the United States, roughly doubling our sales capacity to $400 million and positioning the Company for future growth.

Financial Results

The challenges of implementing our expansion program once again limited our profitability in 1998. Net income for the year ended December 31, 1998 grew slightly, to $10.8 million, compared to $10.3 million in 1997. Consolidated sales for the year grew 5% to $230.0 million, compared to $218.6 million in 1997. These results reflect higher volume in both our Polymers and Films & Packaging businesses. Due to capacity constraints, growth was restricted in our Polymers business.

Our ongoing investment in research and technology has allowed us to steadily increase specialty products as a percentage of consolidated sales. As a result, specialty products represented about 85 per cent of total sales in 1998, compared to 51 per cent when our Company was established in 1989. Our continued focus on specialty products, which are less susceptible to price fluctuations, helped shield us from the decline in commodity prices witnessed this past year. This mix will change in the short term, to include a higher percentage of commodity grade plastics, as we ramp up to our new capacity.

As a result of the relative price stability in our specialty markets, consolidated operating profit remained steady in 1998 at $26.1 million, compared to $26.3 million last year. Net income was $10.8 million, or $0.62 per share, compared to $10.3 million, or $0.68 per share in 1997. These results reflect a 13% increase in the number of common shares outstanding, and a higher effective tax rate, which should decline when our expansion program is completed and generating earnings.

Expansion Program

By the end of 1998, the Company had entered the final stages of completion of a five-part expansion program.

- Our expanded films plant in Edmonton was a key contributor to our expanded sales volume this past year.
- Our new specialty compounds facility near Chicago contributed significantly to sales in 1998.
- Our expanded packaging plant in Brampton also contributed to sales volume growth this past year.
- Our copolymers expansion in Edmonton entered the start-up phase in late November 1998, and results to date indicate that designed capacity and quality targets will be met. This facility should begin making a positive contribution to operating profit in 1999.

The final part of our expansion program is our new specialty compounds facility in Peachtree City, Georgia. This plant is an important addition to AT Plastics, as it allows us to serve growing wire and cable markets. The new facility entered the final stage of commissioning late in the year.

Edmonton Copolymers Facility

The largest component of our expansion program was the expansion of our copolymers facility in Edmonton, which has increased our copolymer production capacity by 70 per cent. This world class facility incorporates extensive proprietary technology and is specifically designed for our specialty markets. The new facility has also been designed for low-cost expansion. As a result, we have planned an expansion in the year 2000, to 70,000 tonnes at a capital cost of less than $5 million.

We expect the new facility to approach full production capacity quickly. However, we will do so with a less-specialized, lower margin product mix than the current copolymers business. We expect our mix of specialty products – and our margins – to return to historical norms as approvals from new and existing customers are obtained, and as our specialty markets continue to develop.

Growth Strategy

To reap the benefits of our investment in new and expanded facilities, we have developed marketing plans to sell product in North American and offshore markets, including Europe and the Pacific Rim.

In our Polymers business, for example, we expect to direct more than 50 per cent of the capacity from our copolymers plant to hot melt adhesives, wire and cable, automotive and thermal laminations markets. The balance will be used for packaging, tubes, pipes and the shoe industry.

The marketing plan for our hot melt adhesives business is a prime example of our new ability to address growth opportunities both at home and abroad. We anticipate that roughly 40 per cent of our new capacity for hot melt adhesives will be sold through global supply deals we have negotiated with customers in the U.S., Mexico, Brazil, and Western Europe. The balance will come from increased sales to our existing customer base in North America, new business, and business we had temporarily lost due to capacity constraints.

In our Films business, we will continue to explore opportunities to increase the penetration of Agripac® silage films outside North America. In our Packaging business, we will continue to leverage our position in industrial and chemical packaging, as well as our position in barrier films for consumer packaging.

Outlook

The completion of our expansion program appears to be well timed from a competitive perspective, as we see little new capacity for EVA copolymers coming on stream in North America and elsewhere. Since we began our expansion

EDMONTON

^ State-of-the-art copolymer expansion located on 40 acre site.

PEACHTREE CITY

^ Specialty compounds plant designed to meet the cleanliness standards for medium voltage power cable insulation.

program in 1995, we have seen some competitors withdraw from certain of our markets. At the same time, demand for AT Plastics' products has increased as our customers continue to grow. Based on these trends, our long-term outlook is favourable. Unfortunately, the start-up of the plant coincided with a cyclical downturn in commodity resin selling prices, accentuated by events in South East Asia. A significant portion of the initial production from the copolymer expansion will be to more "commodity like" markets. On the other hand, we should see a reduction in feedstock costs in 1999 resulting from the new ethylene supply agreement, which came into effect January 1, 1999.

While we anticipate significant growth at the operating profit level for both Polymers and Films & Packaging in 1999, our net income will be affected by higher depreciation, interest and fixed costs related to our expansion. It will also be affected by the higher percentage of lower margin business in our product mix as we ramp up our new capacity. Therefore, we expect relatively flat performance initially, followed by a gradual increase in profitability through the year 2000. As margins, particularly in our Polymers business, reach pre-expansion levels and our specialty markets continue to develop, we expect to be able to fully leverage our investment in new and expanded facilities to reward our shareholders with increased profitability.

Acknowledgements

On behalf of management, I would like to express my sincere appreciation to all 740 AT Plastics employees, whose hard work and dedication will be instrumental as we ramp up capacity in the year ahead. I would also thank our Board of Directors for their expertise and wise counsel during a challenging period in our development. In particular, I would like to thank Sam Ruttonsha, who did not stand for re-election in 1998, for his contribution since the early formation of the Company. I would also like to welcome Andrew Smith, who joined the Board in February 1999. Finally, I would like to thank our shareholders for their continued support and look forward to rewarding them by increasing shareholder value in the years ahead.

J. G. (Geoff) Clarke, Chairman & Chief Executive Officer, *March 9, 1998*

JG Clarke.

financial highlights

- Sales increased 5% as three parts of expansion program are now in operation.
- Earnings continue to be affected by costs related to the expansion program.
- Paid a quarterly dividend of 4.5 cents per share each quarter.
- In March 1998, the Company issued 2,467,500 common shares for net proceeds of $24.9 million.
- In July 1998, the Company raised $30.0 million through the issue of a third tranche of senior secured debentures.
- Subsequent to year end, in February 1999, the Company issued 2,250,000 common shares for net proceeds of $17 million.

Years ended December 31

(in millions of dollars, except per share amounts)	1998	1997
Sales	$ 230.0	$ 218.6
Net income	10.8	10.3
Operating profit	26.1	26.3
Operating profit per share	1.51	1.72
Net income per share	0.62	0.68
Cash flow	28.0	27.1
Cash flow per share	1.62	1.77
Dividend per share	0.18	0.18
Total assets	505.6	358.2
Total debt	255.4	157.7
Shareholders' equity	187.7	154.5
Capital expenditures	140.5	92.6

management's discussion and analysis

The following discussion and analysis for the years ended December 31, 1998 and 1997 should be read in conjunction with the comparative financial statements of the Company included herein.

Results of Operations

Consolidated sales in 1998 increased 5% to $230.0 million, compared with 1997 sales of $218.6 million. Demand for the Company's products continued to be robust in most of the markets served by the Company, but sales for copolymers and PowerGuard® specialty compounds, and to a lesser extent packaging, were constrained by lack of production capacity. Markets in Asia were severely affected by financial problems in that area, but this had only a modest effect on the Company due to a shortage of production capacity for copolymers. Average selling prices for copolymers declined modestly in the second half of the year. Unit margins in Films and Packaging also declined modestly partly due to taking on lower margin business to sell out the expanded capacity in this business.

Consolidated operating profit of $26.1 million was essentially unchanged from 1997, as improved operating profit from the expanded Films & Packaging business was offset by lower operating profit in the Polymers business where the expansions, with the exception of Flexet® specialty compounds, were not yet in commercial operation.

Net income for the year increased to $10.8 million, or $0.62 per common share, from $10.3 million, or $0.68 per common share in 1997. The improvement reflects lower interest costs in 1998, partially offset by a higher effective tax rate. Lower interest expense reflects the lower proportion of outstanding debt required for operations as compared to that required for the expansion program. Net income would have been $5.2 million higher for the year had the Company not entered into a currency hedging program as discussed under Financial Risk Management.

Federal Large Corporation Tax reduced earnings per share by $0.05 for the year ($0.05 per share in 1997). The Large Corporation Tax is applicable on the capital of companies, and was more significant for the Company during this period as a result of the current expansion program. This program is nearing completion, and should contribute to a reduction in the Company's effective tax rate, as the expanded facilities begin commercial production and start generating earnings.

Charges in Consolidated Operating Profit

(millions of dollars)	Increase (Decrease) 1998 Compared with 1997
Polymers Business	
Lower selling prices and mix	(1.6)
Higher sales volume	2.5
Higher ethylene costs	(3.5)
Lower vinyl acetate costs	0.9
Lower depreciation expense	0.3
Higher other costs	(0.5)
Sub-total	(1.9)
Films & Packaging	
Lower margin after variable costs	(1.0)
Higher sales volume	2.8
Lower fixed costs	0.1
Higher depreciation	(0.2)
Sub-total	1.7
Total Company	(0.2)

management's discussion and analysis

Polymers

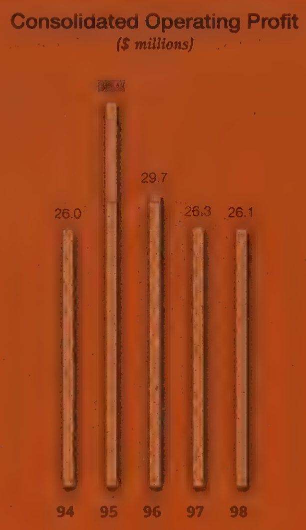
In 1998, sales revenue of the Polymers business increased by 3% to $142.6 million, compared with 1997, while volume increased by 5%. In 1997, sales revenue increased 1% and volume decreased 5%. Sales growth was constrained in both years due to lack of production capacity. Production was adversely affected in 1997 by a planned six-day outage to facilitate the connection to ethylene supply and power supply for the copolymers expansion. No major production outages were experienced in 1998.

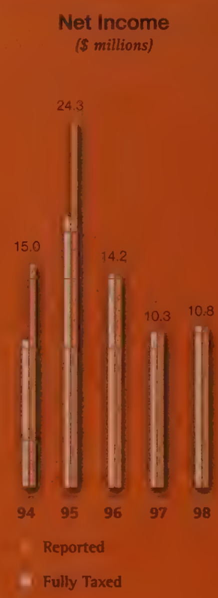
Average selling prices decreased in 1998 compared to 1997 due to modest price declines in the second half of the year as copolymer prices, after a lag, became affected by the cyclical downturn in the petrochemical and plastics industry. Average selling prices increased in 1997 compared to 1996 due to modest price increases which reflected the strong markets and improving mix of the Company's products.

Demand for copolymer products in 1998 continued to be robust in North America due to favourable economic conditions in most of the target markets. However, demand in the Asian market declined substantially due to the financial problems in many of those countries. The reduced demand led to sharply falling selling prices, particularly for the more commodity "shoe grade" products. The poor trading conditions in Asia only had a modest effect on the Company in 1998 due to the Company's tight supply situation and the fact that Asian markets represent less than 10% of the Company's total sales. Looking forward, the impact will be significantly greater with the startup of the copolymer expansion. As a result, the Company has increased its focus on North American and European markets to sell the output of the copolymer expansion.

Operating costs for the Polymers business have increased significantly. Higher ethylene costs due to higher natural gas prices and higher operating costs under the Company's "cost of service" supply contract were only partially offset by lower vinyl acetate costs. Furthermore, much of the higher costs related to maintaining the Company's positions in certain high growth markets in preparation for new capacity coming on stream on completion of the Company's expansion program continued in 1998. Some modest improvement was achieved in reducing the level of wide specification material and distribution costs were reduced significantly as a result of better utilization of rail cars and lower negotiated freight rates.

Polymers Business *(millions of dollars)*	**1998**	1997
Sales	**142.6**	137.9
Segment Operating Profit	**20.2**	22.1





Films & Packaging

Sales revenue for Films & Packaging increased 7% to $90.8 million compared with 1997, while volume increased 12%, reflecting strong demand for packaging and horticultural and agricultural films. The Brampton packaging plant expansion was completed in the second quarter of the year. In addition, the output limitations on the Edmonton films plant experienced in 1997 were largely eliminated. Strong growth was achieved in South America, as the Company built on the base for agricultural films established in this market in 1996 and 1997. Unit selling prices were adversely affected by the pass through in 1998 of lower raw material costs to finished product selling prices.

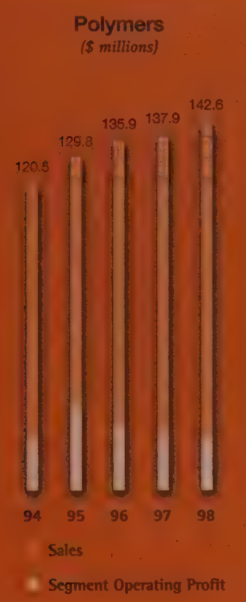
Films & Packaging Business *(millions of dollars)*	**1998**	1997
Sales	**90.8**	84.8
Segment Operating Profit	**6.0**	4.2

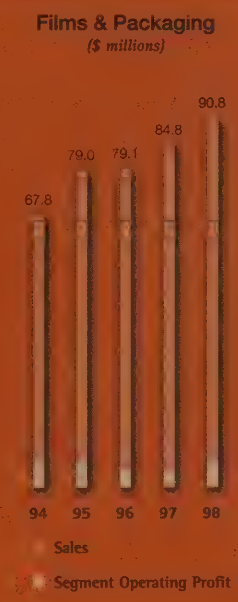
Expansion Program

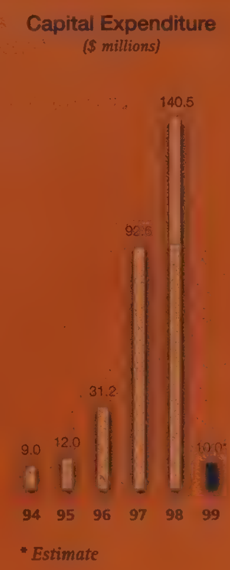
The Company has substantially completed its five-part expansion program. The expansions of the films and packaging plants and the new Flexet® specialty pipe compound facility are achieving design output rates and meeting quality standards, although some improvement to a large die is required for the longer term.

The initial start of production at the new copolymer facility in Edmonton took place in late November, 1998. The facility has progressed through a limited range of low, medium and high EVA products, demonstrating its ability to meet quality standards and capacity expectations, but continues in the startup and commissioning stage. The Company's treatment of startup and commissioning is described below. The plant is not expected to produce the full range of medium and high EVA grades until the end of the first quarter, 1999, as many of these custom products must undergo thorough testing before they are made commercial. As expected, the plant is experiencing a number of startup problems, mainly of a mechanical or electrical nature, which are causing brief plant outages. As these problems are corrected, production is expected to reach design capacity.

The specialty compounds plant in Peachtree City, Georgia, is undergoing trials and modifications designed to achieve full product qualification by our customers. Recent customer trials indicate that initial sales should commence by the end of the first quarter of 1999. This facility is expected to operate at modest capacity levels in 1999 while markets are further developed.







management's discussion and analysis

The startup and commissioning stage is defined as the period between completion of construction and commercial operation of a facility. Commercial operation has been defined as the earliest attainment of one of the following criteria:

1) Monthly production greater than 50% of capacity on products projected to be manufactured;
2) Breaking even on an operating profit basis, or
3) Six months from completion of construction.

During the startup and commissioning period, revenues are netted against operating costs including project interest for the expanded facility and the balance is deferred and amortized over five years. Depreciation expense is charged from the start of commercial operation.

The startup and commissioning period for the copolymer expansion is expected to end in the first quarter of 1999, and for the Peachtree City specialty compounds plant, in the third quarter of 1999.

Sensitivities of 1999 Operating Profit to Market Conditions

Prices and margins for the Company's products are influenced by market conditions. The following table indicates management's current view of the sensitivities of operating profit to some of these factors.

(millions of dollars)	**Increase (Decrease) Operating Profit**
Increase of US 1¢/lb. in price of EVA Copolymers	2.7
Increase of Canadian 10¢/GJ in cost of natural gas	(0.7)
Increase of Cdn. 5/Kg. in cost of vinyl acetate monomer	(1.1)

Liquidity and Capital Resources

Cash provided from operations before changes in non-cash working capital and other liabilities amounted to $28.0 million in 1998 compared with $27.1 million in 1997. Non-cash working capital and other liabilities decreased by $11.1 million compared with an increase of $3.4 million in 1997. At the end of 1997, polymers and films inventory were unusually high. During 1998, the Company initiated a working capital reduction program to reduce investment in working capital and to free up cash resources to help finance the completion of the expansion program. This program included continuing tight management of receivables, reduction in inventory and negotiating extended terms for payables. Some of these initiatives must be unwound in the second half of 1999. In addition, about $6 million of construction payables relating to the copolymer expansion were outstanding at December 31, 1998.

In March 1998, the Company issued common shares for net proceeds of $24.9 million. In July 1998, it also issued $30 million of senior secured debentures due 2009, with an interest rate of 8.08% as a third tranche to the senior secured debentures issued in 1997. These new debentures rank pari passu with the balance of the Company's debt. During the year, $70.4 million was drawn on the Company's $75.0 million committed revolving term bank facility, leaving an undrawn balance of $4.6 million at year end 1998. Coincident with the debt issue, the Company negotiated a relaxation of existing debt covenants in exchange for a small increase for three years in the interest rate for the associated debt. Repayments of $8.6 million on the long-term debt and capital leases were made during this year.

In 1998, the Company invested $140.5 million in the purchase of fixed assets including capitalized interest of $12.1 million, and $8.4 million in changes in other assets. The fixed asset acquisition portion of the expansion program was substantially complete at the end of 1998. Pre-operating costs related to the startup and commissioning stage of the Edmonton copolymer expansion and the Peachtree City specialty compounds facility accounted for $7.7 million of the increase in other assets. Expenditures of approximately $10 million are planned for the purchase of fixed assets in 1999. A capital expenditure of less than $5.0 million in late 1999 and early 2000 is planned to increase capacity of the new copolymer facility to about 70,000 tonnes per year.

Subsequent to year-end, in February 1999, the Company issued 2,250,000 common shares at $8.00 per common share for net proceeds of approximately $17 million. If the 10% over-allotment option is exercised by the Underwriters, up to an additional 225,000 common shares will be issued for net proceeds of up to $1.7 million.

The Company plans to arrange a new debt facility in the amount of $10 million. This facility, together with proceeds from the February 1999 equity issue and internally generated funds, is expected to be adequate to fund the Company's working capital requirements arising from the current expansion program.

Financial Risk Management

When the Company embarked on the five-part expansion program in 1995, it recognized the financial risk of such a large capital expenditure program relative to its size. Since a substantial portion of the Company's revenues are denominated in US dollars, one of these risks is fluctuations in the exchange value of the Canadian dollar. To reduce this risk, the Company entered into a rolling three year program to hedge the exchange rate of the Canadian dollar versus the US Dollar. As a result of this program, the Company was unable to benefit from the decline of the Canadian dollar in 1998. This lost opportunity amounted to approximately $8.3 million (pre-tax). The Company has outstanding forward sales contracts for delivery of US$85 million in 1999 at an average exchange rate of $1.364 Canadian and US$70 million in 2000 at an average exchange rate of $1.417 Canadian. Despite the experiences in 1998, the Company believes a risk reduction policy is prudent and intends to continue its hedging program.

Environmental

The Company does not believe that it has any material environmental issues. Environmental activities at the Edmonton site and other locations are included in normal plant operations.

YEAR 2000

The Year 2000 computer problem poses a challenge to all businesses. The problem arises because many existing computer systems and microprocessors cannot accurately interpret dates beyond 1999. This situation affects major areas of the Company's operations including order-taking, production scheduling, process control, shipping and invoicing.

All Systems (Excepting Production Devices and Controls)

As of year-end 1998, the Company has prepared an inventory of its systems, determined compatibility with the Year 2000 and developed a plan to respond to those systems which are not Year 2000 compatible. All non-compatible systems are expected to have either been retired and replaced or modified and, in each case, fully tested for Year 2000 compatibility by March 31, 1999. The Company is satisfied that all remaining activities can be carried out by Company systems personnel.

Production Devices and Controls

As of year-end 1998, the Company has prepared an inventory of its production devices and controls. With a few exceptions, it has determined the compatibility of these devices and controls with Year 2000 requirements and developed plans to implement solutions for those systems not Year 2000 compatible. Solutions were implemented and tested by year-end 1998 at all locations with the exception of the Edmonton polymers and films plants. The assessment stage at the Edmonton site will be completed by March 31, 1999, and implementation and testing of solutions is expected to be completed by June 30, 1999. A consulting firm has been retained to assist with the Year 2000 activities at the Edmonton site.

Other

Subject to limited exceptions believed to be immaterial, the Company has received satisfactory responses to the industry standard measures it has taken to ascertain that the Year 2000 problem will not materially affect the ability of its sole-source suppliers to continue meeting the Company's requirements. The Company has a broadly diversified customer base comprised mainly of major North American corporations. The Company carries finished goods inventories, except in its Packaging business, sufficient to meet normal customer requirements. Accordingly,

management's discussion and analysis

the Company anticipates that any disruption of supplier or customer management information or process control systems will not materially affect the Company's operations or financial condition.

The Company currently estimates that the cost of the Year 2000 program will not exceed $750,000, of which approximately $500,000 will be capitalized or deferred and amortized.

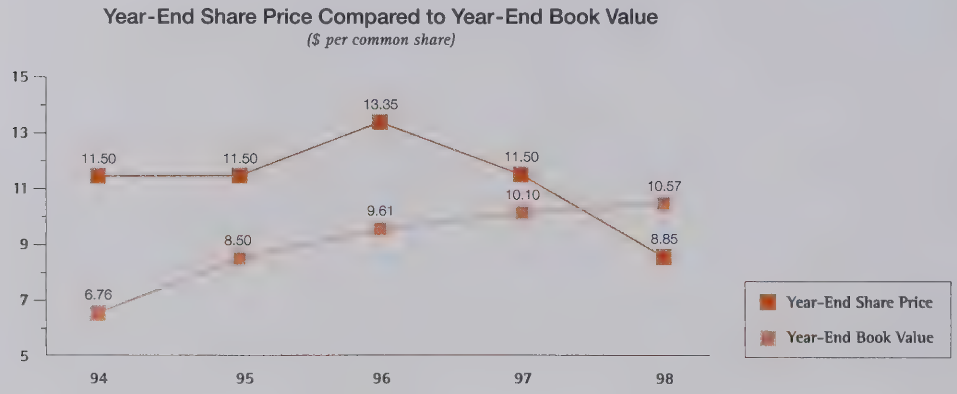
Outlook

The economic outlook for the plastic raw materials industry continues to be unfavourable in 1999 and 2000 despite a probable 10% price increase for commodity polyethylene in the first quarter of 1999. Substantial new industry capacity for ethylene and commodity polymers will be coming on stream again in 1999. However, little new capacity worldwide has been announced for medium and high EVA copolymers. So far in this cycle of over capacity in the petrochemical and plastics industry, specialty products (such as those produced by the Company) have again maintained more stable pricing than that experienced by commodity products. The financial problems in Asia are showing little sign of improvement and continue to be a concern with the Company's additional copolymer capacity. However, the Company has significantly changed its focus to North America and Europe and has been successful in arranging business there to reduce its reliance on Asia as a market for product from the copolymer expansion.

In addition to growth of Polymers sales from the Edmonton expansion, the Company expects continuing growth in Flexet® specialty pipe compounds and PowerGuard® specialty cable compounds. Sales of Flexet® compounds accelerated rapidly in the latter part of 1998.

The outlook for the downstream plastics processing industry is positive, as it is not subject to the same swings in capacity utilization. Low raw material costs in an economic downturn make this part of the plastics industry more competitive with alternative materials such as paper, glass and aluminum. With its expanded capacity in place, the Films & Packaging business is well positioned to benefit from favourable industry conditions.

At the segmented operating profit level, both Polymers and Films & Packaging are expected to show significant growth in 1999. However, only modest improvement in net income is expected in 1999, due to the large increase in depreciation, interest and fixed costs with the startup of the copolymer and specialty compounds expansions. In particular, the first quarter is expected to be weak, as the mix of products from the copolymer facility will have a higher proportion of lower margin business, and higher depreciation and interest costs are expected to be incurred for the quarter.



Management's discussion and analysis includes forward-looking statements which involve risks and uncertainties, including but not limited to selling prices and raw material costs, economic, competitive, governmental and technological factors affecting the Company's operations, markets, products, services and prices, and other factors discussed in the filings with the U.S. Securities and Exchange Commission and Canadian regulatory authorities.

management's responsibility for financial statements

The accompanying consolidated financial statements of AT Plastics Inc. and financial information in the annual report are the responsibility of management.

The financial statements have been prepared by management in accordance with generally accepted accounting principles, with the most significant set out in Note 1 to the financial statements. Financial statements are not precise since they include certain amounts based on estimates and judgements. Management has determined such amounts on a reasonable basis to ensure that financial information is presented fairly in all material respects.

The accounting procedures and related systems of internal control are designed to provide reasonable assurance that the assets are safeguarded and financial records are reliable.

The Board of Directors is responsible for ensuring that management fulfills its responsibilities for financial reporting and is ultimately responsible for reviewing and approving the financial statements, on the recommendation of the Audit Committee. The Committee also considers, for review by the Board and approval by the shareholders, the engagement or re-appointment of the external auditors. The Audit Committee is appointed by the Board and all its members are non-executive directors.

The consolidated financial statements have been audited by Deloitte & Touche and their report is presented below.

J.G. Clarke

J.G. (Geoff) Clarke
Chairman & Chief Executive Officer

J.B. Donaghy

James B. Donaghy
Vice President, Finance & Chief Financial Officer

auditors' report

To the Shareholders of AT Plastics Inc.

We have audited the consolidated balance sheets of AT Plastics Inc. as at December 31, 1998 and 1997 and the consolidated statements of operations and retained earnings and of changes in financial position for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 1998 and 1997 and the results of its operations and the changes in its financial position for the years then ended in accordance with generally accepted accounting principles.

Deloitte & Touche LLP.

Chartered Accountants, Toronto, Ontario, *February 5, 1999*

consolidated balance sheets

December 31, 1998 and 1997

(thousands of dollars)	1998	1997
Assets		
Current		
Cash	$ 4,292	$ 411
Accounts receivable	32,028	31,809
Inventory (Note 2)	46,877	47,426
Prepaids	1,113	906
	84,310	80,552
Fixed (Note 3)	386,271	255,419
Other (Note 4)	35,040	22,225
	$ 505,621	$ 358,196
Liabilities		
Current		
Accounts payable	$ 41,384	$ 30,362
Current portion of long-term debt (Note 5)	12,555	8,351
	53,939	38,713
Long-term debt (Note 5)	242,825	149,362
Deferred income taxes	21,149	15,628
	317,913	203,703
Shareholders' Equity		
Capital stock (Note 6)	153,937	128,404
Retained earnings	33,771	26,089
	187,708	154,493
	$ 505,621	$ 358,196

See accompanying notes to consolidated financial statements.

Approved by the Board

H.G. Pearce

Gordon Pearce
Director

John Abell

John Abell
Director

consolidated statements of operations and retained earnings

Years ended December 31, 1998 and 1997		
(thousands of dollars, except per share amounts)	**1998**	1997
Sales	**$ 229,976**	$ 218,644
Cost of sales and other expenses	**194,170**	182,582
Income before the undernoted items	**35,806**	36,062
Less		
Interest on long-term debt	**5,858**	7,785
Depreciation and amortization	**9,680**	9,741
Interest income	**(229)**	(136)
Other expense	**1,361**	1,642
	16,670	19,032
Income before income taxes	**19,136**	17,030
Income taxes (Note 7)		
Current	**2,264**	1,060
Deferred	**6,104**	5,629
	8,368	6,689
Net income for the year	**10,768**	10,341
Retained earnings at beginning of year	**26,089**	18,501
Dividends	**(3,086)**	(2,753)
Retained earnings at end of year	**$ 33,771**	$ 26,089
Net income per share (Note 8)	**$ 0.62**	$ 0.68

See accompanying notes to consolidated financial statements.

consolidated statements of changes in financial position

Years ended December 31, 1998 and 1997

(thousands of dollars)	1998	1997
Cash from (used in)		
Operations		
Net income for the year	$ 10,768	$ 10,341
Add items charged to income not affecting cash		
Depreciation and amortization	9,680	9,741
Deferred income taxes	6,104	5,629
Amortization of exchange on long-term debt	1,432	462
Write-off of discontinued projects	–	877
Cash flow before change in working capital and other liabilities	27,984	27,050
Change in non-cash working capital and other liabilities	11,145	(3,412)
	39,129	23,638
Financing activities		
Long-term debt issued	100,433	70,000
Long-term debt repaid	(8,641)	(6,070)
Common shares issued	24,949	–
	116,741	63,930
Dividends paid	(3,086)	(2,753)
Investing activities		
Purchase of fixed assets	(140,457)	(92,612)
Change in other assets	(8,446)	(7,018)
	(148,903)	(99,630)
Increase (decrease) in cash during the year	3,881	(14,815)
Cash at beginning of year	411	15,226
Cash at end of year	$ 4,292	$ 411

See accompanying notes to consolidated financial statements.

notes to consolidated financial statements

December 31, 1998 and 1997

1. Significant accounting policies

Principles of consolidation

The consolidated financial statements include the accounts of the Company and its wholly-owned subsidiaries.

Inventory

Inventory is valued at the lower of average cost and net realizable value. Work in progress and manufactured goods include the cost of raw materials, variable labour and manufacturing overheads.

Fixed assets

Fixed assets are recorded at cost. The Company reviews the useful lives of assets on a regular basis. Depreciation is provided over the remaining expected asset lives on a straight-line basis as follows:

Buildings	15 – 25 years
Plant equipment	12 – 20 years
Computers, furniture and office equipment	2 – 5 years
Assets under construction – in operation	12 – 20 years

Depreciation is not provided on assets under construction which are not in operation.

The Company capitalizes interest on major assets under construction which are not in operation.

Pension costs and obligations

The Company maintains non-contributory defined benefit pension plans which cover substantially all of its employees. The plans provide pensions based on length of service and the best three years' average earnings.

According to actuarial reports, which are based on projections of employees' compensation levels to the time of retirement, the present value of the accrued pension benefits and the net assets available to provide for these benefits, at market value, as of December 31 are as follows:

(thousands of dollars)	**1998**	1997
Accrued pension benefits	**$ 37,478**	$ 34,665
Pension fund assets	**44,150**	40,886

The Company's pension expense under these plans is $598,000 (1997 – $ 461,000). The difference between the amount expensed and the funding contributions has been reflected in the balance sheet in other assets.

The Company's registered pension plans had no unfunded actuarial liability as at December 31, 1998 based on the most recent estimate provided by the Company's actuaries.

The Company also has a voluntary money purchase retirement savings plan.

Development costs

Product development costs are deferred and amortized on a straight-line basis over a maximum period of five years, commencing when full commercial production is achieved.

Goodwill

Goodwill represents the excess of the purchase price over the assigned values of assets acquired. Goodwill is amortized on a straight-line basis over 15 years. The balance is reviewed on a regular basis and in the event of a permanent impairment to goodwill, such as a material change in the business practices or significant operating losses, the Company would record a reduction in the unamortized portion of goodwill.

Pre-operating costs

Pre-operating start-up costs are amortized using the straight-line method over a period not to exceed five years from the date operations commence.

Income taxes

Income taxes are accounted for by the deferral method of income tax allocation.

notes to consolidated financial statements

Estimates

The preparation of financial statements in conformity with generally accepted accounting principles, requires management to make estimates and assumptions that affect the reported amount of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

2. Inventory

(thousands of dollars)	1998	1997
Raw materials	$ 14,452	$ 11,982
Work in progress	3,217	6,737
Finished goods	29,208	28,707
	$ 46,877	$ 47,426

3. Fixed assets

(thousands of dollars)	1998		
	Cost	Accumulated Depreciation	Net Book Value
Land	$ 10,075	$ –	$ 10,075
Buildings	32,284	13,387	18,897
Equipment	206,893	89,835	117,058
Construction in progress	240,801	560	240,241
	$ 490,053	$ 103,782	$ 386,271

(thousands of dollars)	1997		
	Cost	Accumulated Depreciation	Net Book Value
Land	$ 10,237	$ –	$ 10,237
Buildings	31,754	12,290	19,464
Equipment	195,698	81,615	114,083
Construction in progress	112,117	482	111,635
	$ 349,806	$ 94,387	$ 255,419

During the year, interest on construction in progress in the amount of $12,136,000 (1997 – $3,160,000) was capitalized.

4. Other assets

(thousands of dollars)	1998		
	Cost	Accumulated Depreciation	Net Book Value
Development costs	$ 10,803	$ 2,471	$ 8,332
Deferred exchange	9,795	2,574	7,221
Deferred financing costs	3,468	610	2,858
Deferred pension costs	6,403	–	6,403
Goodwill	1,109	296	813
Investment tax credits recoverable	1,674	–	1,674
Pre-operating costs	7,739	–	7,739
	$ 40,991	$ 5,951	$ 35,040

(thousands of dollars)	1997		
	Cost	Accumulated Depreciation	Net Book Value
Development costs	$ 9,111	$ 1,675	$ 7,436
Deferred exchange	5,515	1,320	4,195
Deferred financing costs	2,439	184	2,255
Deferred pension costs	6,165	–	6,165
Goodwill	1,109	222	887
Investment tax credits recoverable	1,287	–	1,287
	$ 25,626	$ 3,401	$ 22,225

5. Long-term debt

The Company has the following long-term debt outstanding as of December 31:

(thousands of dollars)	Maturity dates	**1998**	1997
Revolving bank credit facility	April 24, 2002	**$ 70,433**	$ –
Senior secured notes ($U.S.)	December 30, 2003	**81,795**	84,162
Senior secured note	December 30, 2003	**3,022**	3,334
Senior secured debentures	March 31 and September 30, 2009	**100,000**	70,000
Obligation under capital leases	September, 2000	**130**	217
		255,380	157,713
Less current portion		**12,555**	8,351
		$ 242,825	$ 149,362

The Company has a $75,000,000 committed revolving credit agreement. As at December 31, 1998, $70,433,000 was drawn on this facility, including U.S. $5,500,000, with interest at rates being either prime rate or the Libor/Bankers' Acceptance rate, plus a premium fluctuating, based on certain financial ratios.

The senior secured notes ($U.S) and senior secured note bear interest at 10.24% and 10.583%, respectively, until June 30, 2001, and subsequently at 9.95% and 10.293%, respectively, until maturity. The senior secured notes ($U.S.) are denominated in U.S. dollars ($53,346,000) and translated into Canadian dollars at the balance sheet date exchange rate.

The senior secured debentures are comprised of three tranches of $30,000,000, $40,000,000 and $30,000,000 with interest at 8.16%, 7.34% and 8.083%, respectively, until June 30, 2001 and subsequently at 7.87%, 7.05% and 8.083%, until maturity.

Repayment provisions

The required principal repayments are as follows (based on the $U.S. exchange rate as at December 31, 1998):

(thousands of dollars)	
1999	$ 12,555
2000	13,775
2001	14,974
2002	86,642
2003	27,434
Thereafter	100,000
	$ 255,380

Security

The senior secured notes, debentures and revolving bank credit facility are secured by a first fixed and floating charge on the assets of the Company and the assignment of proceeds from insurance claims.

notes to consolidated financial statements

6. Capital stock

Authorized

Unlimited Class I and II preferred shares

Unlimited Common shares

Issued and fully paid

(thousands of dollars)	1998		1997	
	Number of shares	Amount	Number of shares	Amount
Common shares	**17,760,916**	**$ 153,937**	15,293,416	$ 128,404

As of December 31, 1998, options to purchase 758,083 (1997 – 564,576) common shares at exercise prices between $9.00 and $13.95 were outstanding. These options are exercisable over time and expire between January 2004 and May 2008.

During 1998, the Company issued 2,467,500 common shares for net proceeds of $24,949,000. The Company recorded a tax benefit to capital stock of $584,000 relating to the expenses for the offering.

Shareholder rights plan

The Company has adopted a Shareholder Rights Plan ("Rights Plan") to ensure that any takeover bid made for the shares of the Company would be made to all shareholders, treat all shareholders fairly and equally, and provide the Board of Directors with sufficient time to consider any such offer. The Rights Plan grants shareholders the right to acquire, under certain circumstances, additional common shares at a 50% discount from its current market price. The Company, at its option, may redeem each right at a nominal price or waive application of the Rights Plan. The Rights Plan, and any rights issued under it, will expire on September 23, 1999.

7. Income taxes

(thousands of dollars)	1998	1997
Income before income taxes	**$ 19,136**	$ 17,030
Income taxes at statutory income tax rates	**$ 8,546**	$ 7,605
Manufacturing and processing deduction	**(1,287)**	(1,269)
Large corporations tax	**906**	790
Other	**203**	(437)
	$ 8,368	$ 6,689

The Company has approximately $7,346,000 in non-capital losses for federal income tax purposes available to reduce future years' taxable income. These losses expire by 2005. The Company also has available to reduce future years' taxable income, unclaimed scientific research and experimental development expenditures of approximately $8,074,000, which can be carried forward indefinitely. The benefit of these losses and unclaimed expenditures has been recognized in these financial statements.

8. Net income per share

Net income per share has been calculated on the basis of income divided by the weighted average number of common shares outstanding. The weighted average number of shares for 1998 is 17,260,656 (1997 – 15,293,416).

9. Financial instruments

Off-balance sheet financial instruments

The Company enters into forward exchange contracts, in U.S. dollars, to hedge its sales. The Company believes that its exposure to credit, liquidity and cash flow risks for the contracts is minimal.

As the current replacement value of these outstanding financial instruments is not carried on the consolidated balance sheets, unrealized gains or losses are not recognized for changes in current replacement values.

Further information on outstanding financial instruments is as follows:

(thousands of dollars)	Notional Amounts Maturing in		**1998**	1997
	Less than 1 year	1 to 3 years	**Total**	Total
Forward exchange contracts (U.S. dollars)	$ 85,000	$ 70,000	**$ 155,000**	$ 202,000

Fair value of financial instruments

The estimated fair values of financial instruments as at December 31, 1998 and 1997 are based on relevant market prices and information available at the time. The fair values are not necessarily indicative of the amounts that the Company might receive or incur in actual market transactions. As a significant number of the Company's assets and liabilities, including inventory and fixed assets, do not meet the definition of financial instruments, the fair value estimates below do not reflect the fair value of the Company as a whole.

(thousands of dollars)	**1998**		1997	
	Carrying Amount	**Fair Value**	Carrying Amount	Fair Value
Financial liabilities				
Long-term debt	**$ 255,380**	**$ 266,283**	$ 157,713	$ 159,089
Off-balance sheet financial instruments	**$ –**	**$ 21,700**	$ –	$ 10,353

Cash and short-term investments, accounts receivable and accounts payable are all short-term in nature and as such, their carrying values approximate fair value.

The fair value of long-term debt was estimated based on discounted cash flows, using current market interest rates and the Company's credit rating at time of issuance of the original debt.

Off-balance sheet financial instruments include forward exchange contracts. The foreign exchange instruments were valued based on the differential between contract rates and year end forward rates.

Concentration of credit risk

At December 31, 1998, two customers accounted for approximately 21% (1997 – 19%) of total accounts receivable. The remaining accounts receivable are from customers widely dispersed primarily in North America with individual customers comprising generally less than 5% of the outstanding balance at any time during the year. The Company mitigates credit risk by utilizing letters of credit on selected customers and by obtaining insurance coverage for a substantial portion of other receivable balances.

10. Commitments and contingencies

Operating leases

Under the terms of operating leases, the Company is committed to rental payments until expiry of leases as follows:

(thousands of dollars)	
1999	$ 4,018
2000	3,387
2001	2,626
2002	2,473
2003	2,412
Thereafter	15,589

Purchases

The Company has entered into a 15 year cost of manufacture-related ethylene supply contract commencing in 1999 for approximately 125,000 tonnes per year under a limited take or pay arrangement.

Forward exchange contracts

The Company has committed to sell U.S. $155,000,000 through forward exchange contracts at varying rates through December 2000.

notes to consolidated financial statements

11. Segmented information

The Company conducts business primarily in two business segments; Polymers and Films & Packaging.

Polymers

The Company's Polymers business produces specialty ethylene-based plastic raw materials used in the manufacture of laminating products, wire and cable insulation, adhesives, automotive parts, packaging, pipe, athletic shoes and medical products.

Films & Packaging

The Company's Films & Packaging business produces specialty films (plastic sheeting) and packaging used in coverings for greenhouses and plastic shipping sacks for, among other things, chemicals, fertilizer, polymers, and explosives.

Results by Business Segment:

(thousands of dollars)	**1998**	1997
Segment Revenues		
Revenues from external parties		
Polymers	**$ 140,339**	$ 134,403
Films & Packaging	**89,637**	84,241
	$ 229,976	$ 218,644
Revenues from transactions with other operating segments		
Polymers	**$ 2,263**	$ 3,533
Films & Packaging	**1,138**	544
	$ 3,401	$ 4,077
Earnings Before Interest, Taxes, Depreciation and Amortization		
Polymers	**$ 26,106**	$ 28,347
Films & Packaging	**9,700**	7,715
	35,806	36,062
Depreciation & Amortization		
Polymers	**5,930**	6,230
Films & Packaging	**3,750**	3,511
	9,680	9,741
Segment Operating Profits		
Polymers	**20,176**	22,117
Films & Packaging	**5,950**	4,204
Total Segment Operating Profits	**26,126**	26,321
Interest on long term debt	**5,858**	7,785
Interest income	**(229)**	(136)
Other expense	**1,361**	1,642
Income Before Income Taxes	**$ 19,136**	$ 17,030

(thousands of dollars)	1998	1997
Identifiable Assets		
Polymers	$ 388,165	$ 253,799
Films & Packaging	77,504	81,761
	$ 465,669	$ 335,560
Assets not included in Segments	39,952	22,636
Total Assets	$ 505,621	$ 358,196
Expenditures for Fixed Assets		
Polymers	$ 134,681	$ 83,738
Films & Packaging	5,776	8,874
	$ 140,457	$ 92,612

Results by Geographic Segment:

(thousands of dollars)	1998	1997
Segment Revenues		
Canada	$ 65,060	$ 56,800
United States	142,033	140,598
Other	22,883	21,246
	$ 229,976	$ 218,644
Identifiable Assets		
Canada	$ 428,438	$ 307,870
United States	37,231	27,690
	$ 465,669	$ 335,560

12. Uncertainty due to the Year 2000 Issue

The Year 2000 Issue arises because many computerized systems use two digits rather than four to identify a year. Date-sensitive systems may recognize the year 2000 as 1900 or some other date, resulting in errors when information using year 2000 dates is processed. In addition, similar problems may arise in some systems which use certain dates in 1999 to represent something other than a date. The effects of the Year 2000 Issue may be experienced before, on, or after January 1, 2000, and, if not addressed, the impact on operations and financial reporting may range from minor errors to significant systems failure which could affect an entity's ability to conduct normal business operations. It is not possible to be certain that all aspects of the Year 2000 Issue affecting the entity, including those related to the efforts of customers, suppliers, or other third parties, will be fully resolved.

13. Comparative Figures

Certain of the comparative figures have been reclassified to conform with the current year financial statement presentation.

notes to consolidated financial statements

14. Reconciliation of Canadian GAAP to U.S. GAAP

The Company's consolidated financial statements are prepared in accordance with Canadian generally accepted accounting principles ("CDN GAAP"), which conform in all material respects with United States generally accepted accounting principles (U.S. GAAP), except as described below:

A. i) The Company has forward exchange contracts to sell U.S. dollars at varying rates, which are accounted for as hedges under CDN GAAP. Under U.S. GAAP, these contracts are not considered hedges as they are not matched to specific sales, and gains and losses are determined at the reporting date and recorded in net income for the year.

ii) Under CDN GAAP, unrealized translation gains and losses at the reporting date on long-term debt denominated in a foreign currency are deferred and amortized over the term of the debt. Under U.S. GAAP, these gains and losses are recorded in net income for the year.

B. The Company expenses the cost of post-retirement benefits as incurred. For U.S. GAAP purposes, the Company is considered to have adopted Financial Accounting Standards Board statement 106, covering post-retirement benefits other than pensions, from December 15, 1992. The effect of this is to recognize the accrued liability and current service costs earlier.

C. Certain costs for product development which satisfy specified criteria for recoverability are deferred and amortized. Under U.S. GAAP, these costs, including fixed assets used only for product development, are expensed as incurred.

D. The Company capitalizes pre-operating costs. For U.S. GAAP, these costs are expensed as incurred.

E. For U.S. GAAP purposes, the Company is considered to have adopted Financial Accounting Standards Board statement 109, covering income taxes, from December 15, 1992. Investment tax credits which were credited to cost of sales and other expenses under Canadian GAAP would instead be credited to the income tax provision under U.S. GAAP. For the years ended December 31, 1998 and 1997, $387,000 and $452,000, respectively, would be credited to the income tax provision. There is no difference in tax expense between CDN GAAP and U.S. GAAP in 1998 or 1997 other than the investment tax credits noted above and the tax effect on other reconciling items.

F. The following disclosures are applicable under U.S. GAAP. The Company reviews the useful lives of operating assets on a regular basis. During the year, as a result of these reviews depreciation expense decreased by $1,426,000 (1997 – $Nil). The Company paid income taxes of $1,695,000 (1997 – $1,160,000) and interest of $17,715,000 (1997 – $10,059,000). The allowance for doubtful accounts is $231,000 (1997 – $417,000).

G. Under U.S. GAAP, dividends are considered a financing activity on the statement of changes in financial position.

H. The Company adopted SFAS No. 130, Reporting Comprehensive Income, effective January 1, 1998.

I. In June 1998, issued SFAS No. 133, Accounting for Derivative Instruments and Hedging Activities was issued and is effective for fiscal years beginning after June 15, 1999. SFAS No. 133 requires the recognition of all derivatives in the consolidated balance sheet as either assets or liabilities measured at fair value. The Company will adopt SFAS No. 133 effective for the 2000 calendar year end. The Company has not yet determined the impact SFAS No. 133 will have on its financial position or results of operations when such statement is adopted.

The following table reconciles net income for the year as reported in the consolidated statements of operations to what would have been reported had the financial statements been prepared in accordance with U.S. GAAP as described above.

(thousands of Canadian dollars, except per share amounts)		**1998**	1997
Net income for the year (CDN GAAP)		**$ 10,768**	$ 10,341
Adjustments			
Foreign currency (A)	1	**(14,373)**	(16,268)
Post-retirement benefits (B)	12	**(1,799)**	(441)
Development costs (C)	92	**(866)**	(1,994)
Pre-operating costs (D)	112	**(7,739)**	–
Deferred income taxes (E)	8	**9,415**	6,920
		(15,362)	(11,783)
Net loss in conformity with U.S. GAAP		**$ (4,594)**	$ (1,442)
Basic net loss per common share		**$ (0.27)**	$ (0.09)

The following table indicates the items in the consolidated balance sheets that would be affected had the financial statements been prepared in accordance with U.S. GAAP as described above. The revised amounts would be as follows:

(thousands of Canadian dollars)	10K.	**1998**	1997
Assets			
Fixed assets	92 (330)	**$ 385,933**	$ 255,051
Other assets	(39,367) 92(24,015)	**10,965**	11,036
Liabilities and shareholders' equity			
Accounts payable		**$ 19,408**	$ 14,743
Accrued liabilities		**21,976**	15,619
Other current liabilities	1121 14,000	**14,000**	4,180
Other long-term liabilities	1121 13,357	**13,357**	11,256
Deferred income taxes	8 (19,403)	**1,746**	5,640
Retained earnings	[illegible]	**1,404**	9,084

In addition, the opening retained earnings at January 1, 1997 would have been $13,279,000 under U.S. GAAP compared to $18,501,000 under CDN GAAP.

15. Subsequent event

Pursuant to an underwriting agreement dated January 28, 1999 and a prospectus dated the same date, the Company has agreed to sell to the underwriters 2,250,000 common shares for gross proceeds of $18,000,000. The Company has granted to the underwriters an option to purchase up to 225,000 additional common shares to cover over-allotments.

corporate governance

A description of certain of the Company's governance practices pursuant to the requirements of The Toronto Stock Exchange is summarized in this statement of corporate governance practices. The described practices are of long standing and pre-date the Exchange's disclosure requirements.

General Authority and Duty of the Board

The Company's Board has the authority and duty to supervise the management of the Company's business and affairs.

Establishment and Implementation of Corporate Objectives

Management has primary responsibility for establishing objectives for the Company. The objectives are designed to exploit opportunities available to the Company and to diminish the risks to which its business is subject so as to enhance returns to shareholders. Management regularly reviews the objectives to ensure that they are in keeping with the state of the Company's development and the markets in which it operates. Management reviews and revises the objectives with the Board which considers and approves them and monitors progress towards their achievement. The current objectives are set out on page 10 of this report. In pursuit of these objectives, management prepares an annual business plan and a three-year financial forecast which includes annual operating and capital budgets. The business plan and forecast are reviewed and approved by the Board prior to the commencement of each year. The approval of the business plan and budget establish the authority of senior management to take the actions indicated in the Plan and their responsibility for implementation. Monthly reports are distributed to the Board, and at quarterly directors' meetings management reviews with the Board the progress of the Company in meeting the plan and budget and financial reports for release to the public.

The Audit Committee

The Board recognizes the importance of maintaining effective internal financial and other controls, sound management information systems and timely consistent financial reporting. The Board has delegated the oversight of management's performance of these functions to a three member Audit Committee, all of whom are independent and who are selected for their ability and experience with these functions.

The Committee meets at least three times annually with the Company's auditors to review their annual planning for the audit of the Company's accounts, to monitor the progress of the audit and to review the auditors' report and recommendations. The Committee also approves all other financial information prepared by management for public release.

Human Resources and Compensation Committee

The Board regards the selection and compensation of senior management as an important element of meeting the Company's objectives. It has delegated this function to a four member Human Resources and Compensation Committee, consisting of three non–executive members and the Chief Executive Officer. The Committee, with the assistance of independent consultants, considers compensation for senior management which is designed to reward effort, reflect the Company performance in relation to current objectives and be consistent with market rates of compensation. The Committee also meets annually with the Chief Executive Officer to review with him the corporate objectives and the management functions for which he is personally responsible and has the opportunity to discuss the performance and compensation of the Chief Executive Officer in his absence.

Board Composition and Independence

To the Board's knowledge, no person holds more than 15% of the Company's issued common shares. The Board believes that a small board functions most effectively and that it is appropriate that up to three of its members be from senior management. As vacancies arise on the Board, the Board considers appropriate candidates having regard for such factors as their availability to dedicate required time to Board and Committee activities, their experience as directors of reporting issuers, the expertise they bring to the Company's activities, their independence of mind and their ability to effectively serve shareholder interests. Proposed candidates are provided with sufficient information, including these policies and practices, to enable them to make an informed decision as to whether they are willing and able to accept the associated responsibilities. The Board seeks to establish director compensation for serving on the Board and Committees in keeping with comparable companies.

The Board has sought to ensure that a majority of its members are independent of management and free from relationships which could reasonably be regarded as materially interfering with the directors' ability to act independently. The Chairman of the Board is a member of management. The Board also elects a lead director from amongst the independent directors. The role of the lead director is to ensure communication amongst the independent directors and between the independent directors and management, thereby enhancing the independence of the Board from management. The lead director also provides management with an independent perspective on issues between Board meetings.

Given the small size of the Board, the selection process and the foregoing policies, the Board does not regard the establishment of separate governance or nominating committees or a director education program or position description or a formal procedure for enabling individual directors to engage outside advisors at Company expense as meaningful. These activities are the responsibility of the full Board.

directors

John N. Abell
Corporate Director,
Wiltshire, England.
Director since 1993.
Member of the Audit
and Human Resources and
Compensation Committees.

J.G. (Geoff) Clarke
Chairman and
Chief Executive Officer,
AT Plastics Inc.
Director since 1989.
Member of the Human Resources
and Compensation Committee.

John P. Clarke
President,
Emral Enterprises Ltd.,
Roxboro, Québec.
Director since 1994.
Member of the Audit Committee.

James B. Donaghy
Vice President, Finance,
Chief Financial Officer and
Corporate Secretary,
AT Plastics Inc.
Director since 1991.

I. Alan Litvak Ph.D
Pierre Lassonde Chair in
International Business,
Schulich School of Business,
York University,
Toronto, Ontario.
Director since 1995.
Member of the Human Resources
and Compensation Committee.

H. Gordon Pearce
President,
Pearce Consulting Services Ltd.,
Calgary, Alberta.
Director since 1994.
Member of the Audit Committee.

Allan E. Scott
Corporate Director,
Edmonton, Alberta.
Director since 1996.
Member of the Human Resources
and Compensation Committee.

Andrew J. Smith
Managing Director,
Perry Equity Investors Inc.
Dallas, Texas.
Elected in 1999.

officers

J. G. (Geoff) Clarke
Chairman and
Chief Executive Officer

Warren Baker
Vice President,
Research and Technology

William Connelly
Vice President and
General Manager, Packaging

James B. Donaghy
Vice President, Finance,
Chief Financial Officer and
Corporate Secretary

Azizul (Sam) Hasan
Vice President and
General Manager, Films

Glen D. Herring
Vice President and
General Manager, Polymers

V. Peter Johnson
Vice President,
Human Resources

supplementary financial information

Six-Year Financial Summary

(millions of dollars except per share amounts)	1993	1994	1995	1996	1997	**1998**
Sales	157.5	184.6	204.8	210.9	218.6	**230.0**
Net Income (Loss)	(7.7)	15.0	24.3	14.2	10.3	**10.8**
Net Income per share – ($) reported	–	1.29	1.92	0.98	0.68	**0.62**
Net Income per share – ($) fully taxed	–	0.85	1.41	0.98	0.68	**0.62**
Cash Flow per share ($)	–	1.98	3.13	2.13	1.77	**1.62**
Total Assets	206.9	217.6	231.7	273.4	358.2	**505.6**
Shareholders' Equity	(3.0)	82.6	104.6	146.9	154.5	**187.7**
Dividends per share ($)	–	0.135	0.18	0.18	0.18	**0.18**

Fiscal 1998 Quarterly Performance

(millions of dollars except per share amounts)	**1st**	**2nd**	**3rd**	**4th**
Sales	**49.9**	**57.8**	**61.3**	**61.0**
Net Income	**2.2**	**2.7**	**3.1**	**2.8**
Net Income per share – ($) reported	**0.14**	**0.15**	**0.18**	**0.16**
Cash Flow per share ($)	**0.40**	**0.42**	**0.42**	**0.39**

Fiscal 1997 Quarterly Performance

(millions of dollars except per share amounts)	1st	2nd	3rd	4th
Sales	47.0	58.3	57.2	56.1
Net Income	1.9	2.6	3.7	2.1
Net Income per share – ($) reported	0.13	0.17	0.24	0.14
Cash Flow per share ($)	0.36	0.50	0.52	0.38

Fiscal 1998 Common Share Performance

(dollars per share)

Quarter Ended	**1st**	**2nd**	**3rd**	**4th**
High	**12.75**	**12.75**	**12.25**	**11.00**
Low	**10.80**	**11.70**	**8.00**	**8.05**
Close	**12.20**	**12.00**	**8.80**	**8.85**

shareholder information

Auditors
Deloitte & Touche LLP

Legal Counsel
Aird & Berlis (Canada)
White & Case (U.S.)

Incorporated
1989

Banks
Royal Bank of Canada
Canadian Imperial Bank of Commerce
National Bank of Canada

Investor Relations
James Donaghy
Vice President, Finance,
Chief Financial Officer
and Corporate Secretary

Stock Exchanges
The Toronto Stock Exchange
(Symbol ATP)
American Stock Exchange
(Symbol ATJ)

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Annual Meeting Notice
Thursday, April 29, 1999
11:30 a.m. Rooms A,B,C, 4th floor
The Board of Trade
First Canadian Place
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Toronto, Ontario
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Common Shares Outstanding
17,760,916 as at December 31,1998

Research Analyst Coverage
Canada
CIBC Wood Gundy Securities
Credit Suisse First Boston
Levesque Beaubien Geoffrion
Merrill Lynch Canada
Newcrest Capital
ScotiaMcLeod
Yorkton Securities

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AT Plastics' mission is to be a profitable, growing, environmentally responsible, international manufacturer of high-quality specialty plastics, deploying advanced technologies and innovative solutions to meet the needs of its valued customers.

AT Plastics